

VZCZCXRO3933
RR RUEHLMC
DE RUEHAR #1521/01 3371405
ZNR UUUUU ZZH
R 021405Z DEC 08
FM AMEMBASSY ACCRA
TO RUEHC/SECSTATE WASHDC 7322
INFO RUEHPC/AMEMBASSY LOME 2175
RUEHCO/AMEMBASSY COTONOU 0815
RUEHOU/AMEMBASSY OUAGADOUGOU 0556
RUEHAB/AMEMBASSY ABIDJAN 0812
RUEHUJA/AMEMBASSY ABUJA 0788
RUEHOS/AMCONSUL LAGOS 1781
RHEHAAA/WHITE HOUSE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/USDOC WASHDC 0662
RUEHLMC/MILLENNIUM CHALLENGE CORP

UNCLAS SECTION 01 OF 02 ACCRA 001521

WHITE HOUSE FOR USTR LAURIE-ANN AGAMA

SENSITIVE

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EIND](#) [EFIN](#) [EINV](#) [GH](#)

SUBJECT: GHANA MACROECONOMIC AND FINANCE HIGHLIGHTS, NOVEMBER 2008

1. SUMMARY:

1A. (U) According to the Governor of the Bank of Ghana, Accra's financial isolation may provide the country with a temporary respite from the global economic downturn unfolding in international financial centers, while leaving open the potential for a slide if traditional exports, FDI and private remittances decline.

1B. (SBU) Ghana's external debt has almost doubled in two years, exacerbated particularly by high oil prices. Furthermore, some of the external borrowing has funded pre-election pork-barrel schemes and other expensive projects of questionable economic priority, and a lack of technical expertise hampers some of the state's potential gains.

1C. (U) The cabinet is mulling revised investment regulations on foreign investment that would lead to more restrictive provisions on activities and levels of investment, along with prescriptions for local content. The draft bill and the surrounding publicity appears to be a sop to domestic commercial interests for electoral advantage; the bill has little prospect for Parliamentary approval before the formation of the next government.

1A. Financial Isolation: Ghana's Secret Weapon

12. (U) As a consequence of the global economic downturn, some economic observers have noted a drop in remittances to Ghana from the U.S. In addition, the GOG decision to call off (or postpone) a USD 300 million sovereign debt issuance was likely due to weak market interest. Conversely, Post notes that the downturn has led to lowered oil prices, and that the higher cost of oil in 2008 has also contributed heavily to Ghana's negative balance of payments. Accordingly, one positive impact of the financial crisis is lower global oil prices, which will help lower Ghana's external deficit.

13. (U) Ghana Central Bank Governor Paul Acquah said the global financial crisis would not affect Ghana's economy too drastically because the country's financial sector--including the domestic capital market--was not well integrated with the international markets. He admitted that Ghana could be affected in the long run. He noted the banking sector relies heavily on domestic deposits. In Ghana, the banking sector's outstanding external borrowing as a source of funding is less than five percent; cause for concern would only be reached at levels of external borrowing exceeding 50 percent. Additionally, a decrease in the prices of Ghana's major

exports, such as cocoa and gold, and a decline in foreign direct investment and private remittances, could worsen the country's external and fiscal balances and create inflation.

B. Rising Tide of External Debt

14. (U) Ghana's total external debt increased from USD 2.14 billion at the end of 2006 to USD 4.03 billion by the end of September 2008. The total public debt including domestic debt is about 55 percent of GDP. Ghana received a debt cancellation of USD 4.2 billion by external creditors under the HIPC and MDRI in mid-2006 out of the total USD 6.35 billion in GOG external debt.

15. (U) The single largest factor on Ghana's debt position in the past year was higher oil prices. Additionally, some external debt is financing current government expenditures, which include 'pork barrel' projects tied to this year's elections. The most recent example is a 19 million Euro German bank loan for budget support. Accordingly, an economic think tank, the Institute of Economic Affairs (IEA), and the opposition in parliament have raised concerns about Ghana's rising level of external debt, particularly given the government's conspicuous spending on four soccer stadiums, an opulent presidential palace and fulsome celebrations in honor of Ghana's 2007 golden jubilee. Econ Section contacts believe this trend could abate in the first two years of a new GOG administration following December's general elections.

16. (SBU) Beyond meeting energy needs through oil imports, an additional segment of Ghana's external debt has gone into beneficial

ACCRA 00001521 002 OF 002

infrastructure investments. However, even for projects with anticipated economic benefits, there is evidence that some agencies within the GOG lack the technical expertise to maximize the state's gains from the investments.

C. Revised Investment Bill: Last-Minute Electioneering?

17. (U) A draft revised investment law was submitted in late November to the cabinet for approval (the step prior to forwarding to Parliament for approval). Reports suggest the revision proposes an increase in the minimum capital requirement for foreign investment in retailing from USD 300,000 to 1,000,000. The draft also reserves the distribution of pharmaceuticals exclusively for Ghanaian firms. Finally, the draft is reported to require local participation and procurement in ancillary services for the oil and gas sector.

18. (SBU) The bill--and its very public announcement--is best understood as a government tactic of appearing responsive to domestic pressure groups. In November 2007, the Ghana Union of Traders Association (GUTA) shut down their shops and presented a petition to Parliament to revise the current Investment law, and to press for better enforcement. GUTA pressed the GIPC to penalize foreign retailers who did not meet the required USD 300,000 minimum and employment of at least 10 Ghanaians. GUTA proposed the increase of the minimum capital to USD 1.5 million. Responding to these demands, the GIPC shut down over 40 shops, mainly owned by Nigerians, Chinese and Indians.

19. (SBU) COMMENT: Since the bill will not be passed before the December 7 general elections, the announcement of this revised law is likely a last minute attempt by the ruling New Patriotic Party (NPP) to win votes from Ghanaian retailers. Parliament is expected to resume on December 16 (after elections) and will not likely address this bill, leaving this issue for the next administration.
END COMMENT.

TEITELBAUM